

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Chelsea Area Construction Agency	County Washtenaw
Audit Date February 29, 2004	Opinion Date May 12, 2004	Date Accountant Report Submitted To State: June 16, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 350 South Main Street, Suite 200	City Ann Arbor	State MI	ZIP 48104
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **Chelsea Area Construction Agency**

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**Financial Report**  
**February 29, 2004**

# Chelsea Area Construction Agency

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**Independent Auditor's Report**

To the Board of Directors  
Chelsea Area Construction Agency

We have audited the accompanying general purpose financial statements of Chelsea Area Construction Agency as of February 29, 2004 and for the year then ended. These general purpose financial statements are the responsibility of Chelsea Area Construction Agency's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Chelsea Area Construction Agency as of February 29, 2004 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

May 12, 2004

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# Chelsea Area Construction Agency

## Combined Balance Sheet Governmental Funds and Account Group February 29, 2004

	Governmental Funds		General	Total	
	General	Soil Erosion	Fixed Assets	(Memorandum Only)	
	Fund	Fund	Account Group	2004	2003
<b>Assets</b>					
Cash (Note 2)	\$ 469,716	\$ 59,344	\$ -	\$ 529,060	\$ 405,921
Due from Soil Erosion Fund	53,525	-	-	53,525	-
Other current assets	3,501	-	-	3,501	358
Capital assets (Note 3)	-	-	34,792	34,792	34,792
Total assets	<u>\$526,742</u>	<u>\$59,344</u>	<u>\$ 34,792</u>	<u>\$620,878</u>	<u>\$441,071</u>
<b>Liabilities and Fund Equity</b>					
<b>Liabilities</b>					
Accrued liabilities	\$ 16,938	\$ -	\$ -	\$ 16,938	\$ 11,243
Due to General Fund	-	53,525	-	53,525	-
Total liabilities	16,938	53,525	-	70,463	11,243
<b>Fund Equity</b>					
Investment in general fixed assets	-	-	34,792	34,792	34,792
Fund balance:					
Designated (Note 1)	380,000	-	-	380,000	80,743
Unreserved and undesignated	129,804	5,819	-	135,623	314,293
Total fund equity	<u>509,804</u>	<u>5,819</u>	<u>34,792</u>	<u>550,415</u>	<u>429,828</u>
Total liabilities and fund equity	<u>\$526,742</u>	<u>\$59,344</u>	<u>\$ 34,792</u>	<u>\$620,878</u>	<u>\$441,071</u>

# Chelsea Area Construction Agency

## Statement of Revenue, Expenditures, and Changes in Fund Balance

	General	Soil	Total	
	Fund	Erosion	(Memorandum Only)	
		Fund	2004	2003
<b>Revenue</b>				
Permits	\$ 500,776	\$ -	\$ 500,776	\$ 497,046
Inspection fees	-	6,845	6,845	-
Miscellaneous revenue	3,178	-	3,178	15,498
Interest income	4,087	499	4,586	5,441
Total revenue	508,041	7,344	515,385	517,985
<b>Expenditures</b>				
Salaries	107,919	-	107,919	112,329
Payroll taxes	8,443	-	8,443	8,874
Workers' compensation	1,223	-	1,223	828
Medical expense	13,568	-	13,568	11,109
Pension	7,268	-	7,268	7,206
Commission expense	265	-	265	1,165
Vehicle expense	8,000	-	8,000	4,900
Equipment rental	831	-	831	228
Insurance	1,500	-	1,500	3,414
Professional services	9,848	-	9,848	8,201
Telephone	7,610	-	7,610	8,361
Miscellaneous	2,221	1,525	3,746	6,631
Inspections	198,933	-	198,933	176,706
Dues and subscriptions	2,071	-	2,071	1,962
Education and training	375	-	375	442
Office rent	9,000	-	9,000	9,000
Repair and maintenance	1,668	-	1,668	-
Office expense	11,430	-	11,430	6,916
Charitable contributions	1,100	-	1,100	-
Capital outlay	-	-	-	1,330
Total expenditures	393,273	1,525	394,798	369,602
<b>Excess of Revenue Over Expenditures</b>	114,768	5,819	120,587	148,383
<b>Fund Balance - Beginning of year</b>	395,036	-	395,036	246,653
<b>Fund Balance - End of year</b>	<u>\$ 509,804</u>	<u>\$ 5,819</u>	<u>\$ 515,623</u>	<u>\$ 395,036</u>

# Chelsea Area Construction Agency

## Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund Year Ended February 29, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>			
Permits	\$ 510,305	\$ 500,776	\$ (9,529)
Miscellaneous revenue	3,000	3,178	178
Interest income	3,000	4,087	1,087
Total revenue	516,305	508,041	(8,264)
<b>Expenditures</b>			
Salaries	105,800	107,919	(2,119)
Payroll taxes	10,000	8,443	1,557
Workers' compensation	1,200	1,223	(23)
Medical expense	9,700	13,568	(3,868)
Pension	9,700	7,268	2,432
Commission expense	-	265	(265)
Vehicle expense	6,500	8,000	(1,500)
Equipment rental	1,000	831	169
Insurance	4,000	1,500	2,500
Professional services	14,300	9,848	4,452
Telephone	7,700	7,610	90
Miscellaneous	2,100	2,221	(121)
Inspections	276,255	198,933	77,322
Dues and subscriptions	2,500	2,071	429
Education and training	12,000	375	11,625
Office rent	9,000	9,000	-
Repair and maintenance	1,600	1,668	(68)
Office expense	10,450	11,430	(980)
Charitable contributions	-	1,100	(1,100)
Capital outlay	2,500	-	2,500
Total expenditures	486,305	393,273	93,032
<b>Excess of Revenue Over Expenditures</b>	<b>\$ 30,000</b>	<b>114,768</b>	<b>\$ 84,768</b>
<b>Fund Balance - March 1, 2003</b>		<b>395,036</b>	
<b>Fund Balance - February 29, 2004</b>		<b>\$ 509,804</b>	

# Chelsea Area Construction Agency

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## Notes to Financial Statements February 29, 2004

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the Chelsea Area Construction Agency (the "Agency") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

**Reporting Entity** - The Agency is governed by a Board of Directors that is appointed by participating municipalities. The Agency was formed effective February 8, 2000 through a cooperative interlocal agreement between the City of Chelsea, Dexter Township, Lima Township, Lyndon Township, Sharon Township, and Sylvan Township. The Agency provides building, electrical, mechanical, and plumbing permits, along with other related services, to residents of these communities.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Agency, there are no component units to be included in these financial statements.

#### **Fund Accounting**

The accounts of the Agency are organized on the basis of a General Fund, a Soil Erosion Fund, and a General Fixed Assets Account Group, each of which is considered a separate accounting entity. The General Fund contains the records of the ordinary activities of the Agency. General Fund activities are financed primarily through the issuance of various permits and other sources. The Soil Erosion Fund contains only the activity associated with providing inspection services related to soil erosion. Soil Erosion Fund activities are financed by the fees charged for inspection services.

#### **Basis of Accounting**

The modified accrual basis of accounting is used. Modifications in such method from the accrual basis are as follows:

- a. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- b. Normally, expenditures are not divided between years by the recording of prepaid expenditures.



# Chelsea Area Construction Agency

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## Notes to Financial Statements February 29, 2004

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Fixed Assets** - Fixed assets purchased are recorded as expenditures at the time of purchase. Such assets are capitalized at cost in the General Fixed Assets Account Group. Gifts or contributions are recorded at fair market value at the time received. No depreciation has been provided on general fixed assets.

The General Fixed Assets Account Group is not a fund and does not involve the measurement of results of operations.

**Designated Fund Balance** - A portion of the fund balance has been designated by the Board of Directors for the eventual construction of an office facility for the Agency.

**Charitable Contributions** - The expenditures for charitable contributions may not be in conformity with Michigan statutes. The Agency's legal counsel is currently looking into whether these expenditures are allowable within context of the cooperative interlocal agreement and Michigan statutes.

**Related Parties** - The Agency rents its office space from Sylvan Township for a total of \$750 per month.

Other accounting policies are disclosed in other notes to the financial statements.

### Note 2 - Cash

The Agency's cash is comprised of bank deposits that are reflected in the accounts of the bank (without the recognition of checks written but not yet cleared or of deposits in transit) at \$548,202. Of that amount, \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Agency believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Agency evaluates each financial institution with which it deposits Agency funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Chelsea Area Construction Agency

## Notes to Financial Statements February 29, 2004

### Note 3 - Capital Assets

A summary of fixed assets follows:

	Balance March 1, 2003	Additions	Deletions	Balance February 29, 2004
Office furniture and equipment	\$ 14,532	\$ -	\$ -	\$ 14,532
Leasehold improvements	12,225	-	-	12,225
Software	8,035	-	-	8,035
Total	<u>\$ 34,792</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,792</u>

### Note 4 - Line of Credit

At February 29, 2004, the Agency had a \$20,000 unsecured line of credit with a bank, bearing interest at 5 percent. At February 29, 2004, the Agency had no outstanding borrowings on this line of credit. The line of credit may not be in conformity with Michigan statutes. The Agency's legal counsel is currently looking into whether a line of credit is allowable within the context of the cooperative interlocal agreement and Michigan statutes.

### Note 5 - Budget Information

The annual budget is prepared and adopted by the Agency's Board of Directors; subsequent amendments are approved by the Board of Directors. The budget was not amended during the year ended February 29, 2004.

The budget statement (statement of revenue, expenditures, and changes in fund balance - budget and actual - General Fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget as adopted by the Township Board is included in the general purpose financial statements. This comparison includes expenditure budget overruns. All expenditures were approved by the Board; however, formal budget amendments were not adopted for the various budget overruns. These budget overruns were covered by the budgeted surplus.

# Chelsea Area Construction Agency

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## Notes to Financial Statements February 29, 2004

### **Note 6 - Risk Management**

The Agency is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Agency has purchased commercial insurance for workers' compensation, medical, health, and life and disability claims.

### **Note 7 - Defined Contribution Retirement Plan**

The Agency provides pension benefits for all its employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees become participants in the plan immediately. Employees may make voluntary contributions totaling 4 percent of the employee's includable compensation. The Agency has committed to and is currently making contributions totaling 3 percent of includable compensation. Also, the Agency will make a matching contribution totaling 100 percent of the employee's own contribution. Full vesting takes place immediately for all contributions and related account earnings. The Agency contributed \$7,812 during the current year, and employees contributed \$4,464.

May 12, 2004

Members of Agency Board  
Chelsea Area Construction Agency  
18027 Old US 12, Suite 100  
Chelsea, Michigan 48118

Dear Board Members:

We have recently completed our audit of the financial statements of the Chelsea Area Construction Agency for the year ended February 29, 2004. As a result of our engagement, we offer the following comments and recommendations for your consideration. For your information, we have also provided certain legislative issues that could affect the Agency.

#### **COMMENTS ON FINANCIAL RESULTS/ PLANNING/CONTROLS**

**Overall Results** – The Agency was able to increase the general fund fund balance for the end of its second fiscal year to approximately \$510,000. Since the agency is planning on further growths and eventual expansion to a new facility, the increase in the fund balance is essential to its health and long-term planning. Fund Balance will also help the Agency level out the financial impact of peaks and valleys in the construction activity of the area. We again encourage the Agency to take a more formal step in regards to planning by developing 1) a long term capital improvement plan which would identify not only the cost but also the proposed funding method and 2) a 5 year financial plan for the general fund which would integrate the capital improvement plan and project the ability of the Agency to maintain or improve services to the residents under various revenue assumptions. We would be happy to help these plans and templates to the extent needed.

**Condition of Accounting Records and Controls** – The Agency records were found to be in good condition thanks to the efforts of the employees and the contract accountant. Since strong controls and procedures promote timely and accurate recording of financial transactions and provide pertinent information regarding the sources and uses of funds, we encourage the Agency to continue to modify existing controls as future financial activities change.

One such modification we recommend making is a daily or periodic reconciliation of the issued permits to cash receipts and deposits. This reconciliation should be performed by Bruce McConnell as he does not participate in the collection, deposit, or recording of cash. By making this modification to your regular procedures, the Agency will further improve the internal control environment and further safeguard the Agency's cash assets.

Members of Agency Board  
Chelsea Area Construction Agency

May 12, 2004

### **BUDGET VARIANCES**

As in the previous year, there were instances of noncompliance with the Uniform Accounting and Budgeting Act, wherein actual expenditures exceeded budgeted expenditures. Since the budget process includes a great deal of estimating, it is not unusual for significant variances to develop. We encourage the Agency to monitor expenditures and appropriately amend these budgets to maintain compliance with State budget regulations or adopt the budget on a total fund basis and monitor that level throughout the year.

### **CHARITABLE CONTRIBUTIONS**

During the course of the audit, two charitable contributions were noted. Charitable contributions may not be in conformity with Michigan statutes. These transactions total \$1,100 and have been specifically identified in the financial statements.

### **FORMALIZATION OF VARIOUS POLICIES**

As the Agency continues to grow and as Board membership may change over time, it is important that the various Agency policies are written and formally adopted by the board to ensure continuity and consistency. We recommend the Agency create and adopt formal policies for these items (some of which are required by Michigan Public Acts):

- Asset capitalization threshold
- Allowable investments
- Credit card usage
- Record retention
- Wire transfers

We would be happy to provide examples of such policies at the agency's request.

### **CREATION OF ADDITIONAL GOVERNMENTAL FUNDS**

During the fiscal year ended February 29, 2004, the Agency created a new fund for the purpose of separately recording and reporting activity related to providing soil erosion inspections. If this fund will continue to be reported separately in the Agency's financial statements, a separate budget should be adopted.

Also, it was brought to our attention that the Agency is considering creating an additional fund to maintain assets to be used for the construction of a new office facility. As we communicated to you in a memo dated March 6, 2004, although it is acceptable to create a new fund for this purpose, continuing to designate a portion of the fund balance in the General Fund for future purposes would be appropriate as well. With the adoption of

Members of Agency Board  
Chelsea Area Construction Agency

May 12, 2004

GASB 34 effective March 1, 2004, the Agency's audited financial statements for the year ended February 28, 2005 will implement a new financial reporting model, one which will show all activity of the Agency on an entity-wide basis. The individual funds will be reported in aggregate, as well as on an individual basis.

#### **NEW FINANCIAL REPORTING MODEL**

As we discussed above and in the prior year, the Governmental Accounting Standards Board has finalized its new financial statement reporting model. Some of the changes in this model include:

- A "Management's Discussion and Analysis" section
- Entity-wide financial statements (balance sheet and operating statement) prepared on a full accrual basis.
- A new definition of enterprise activities (probably any activity that charges its users a fee that is intended to finance the majority of operating costs)
- Capital assets and their related depreciation will be reported

It would be an understatement to say that this new reporting model will have a significant impact on the Agency financial statements. The new reporting model calls for implementation by the Agency in the year beginning March 1, 2004.

There are some short-term steps the Agency could take in the near future to begin preparations to implement the new reporting model. This would include creating a fixed asset listing, based on physical observation and estimates. If you have any questions, Plante & Moran will be available to provide any education necessary related to understanding the new statements.

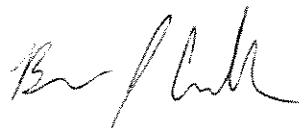
We would like to thank the Agency staff for the cooperation we received in completing this year's audit. Please contact us if you have any questions or comments related to our suggestions, or if we can be of any help in their implementation.

Very truly yours,

PLANTE & MORAN, PLLC



David H. Helisek



Brian J. Camiller